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UNCLAS SECTION 01 OF 02 TORONTO 000117

SIPDIS

STATE FOR EBB/TPP/MTAA (NAFZIGER)  
PASS TO USTR FOR MALMROSE

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [ETRD](#) [EINV](#) [EIND](#) [PREL](#) [PGOV](#) [CA](#)

SUBJECT: CANADA AND ONTARIO APPROVE GENERAL MOTORS RESTRUCTURING  
PLAN

REF: TORONTO 20

SENSITIVE BUT UNCLASSIFIED. PLEASE PROTECT ACCORDINGLY

¶1. (SBU) Summary: On June 1, the Ontario provincial and Canadian federal governments (GOC) announced the terms of their support for General Motor's (GM) restructuring plan. The GOC and Ontario together will invest US\$9.5 billion (C\$10.6 billion) in GM in exchange for an equity position in the company and a seat on its board. GM Canada is not filing for bankruptcy protection in Canada, and will continue operating, though interruptions are expected during GM's Chapter 11 filings in the United States. End Summary.

¶2. (SBU) Following a week of round-the-clock negotiations with GM, dealers, and bondholders that came after an intense round of negotiations between GM and the Canadian Auto Workers union (CAW), Ontario and the GOC released the terms of their support for GM's restructuring plan. Together they will invest US\$9.5 billion (C\$10.6 billion) in the automaker in exchange for a 12% share of the restructured company. The two Canadian governments will also appoint one independent director to the 13-person board of directors. Ontario will invest C\$3.5 billion in GM in exchange for 3.8% of the company; the GOC will invest C\$7.1 billion for 8.2% of the restructured company.

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Conditions Met by GM in Canada  
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¶3. (SBU) Ontario and the GOC finalized their investment agreement once three conditions were met by the company: Canada's current share of GM's North American (including Mexico) automotive production (roughly 16%, all in Ontario) will be maintained until 2016; Canadian labor costs were reduced to match non-unionized competitor Toyota (an all-in rate of C\$52 per hour); and commitments to capital investment (C\$2.2 billion through 2016), as well as to research and development (C\$1 billion through 2016), were made. No employment guarantees were made. In order for GM to meet the above labor concessions, Ontario and the GOC agreed to help GM with pension liabilities and legacy costs, as part of their US\$9.5 billion investment.

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Canadian Ownership  
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¶4. (SBU) Canada's share of GM's new capital structure includes the following:

- Ontario/GOC will take on US\$1.3 billion of GM's US\$17 billion consolidated debt;
- Ontario/GOC will own US\$400 million of GM's US\$9 billion in

preferred shares; and  
-- Ontario/GOC will own 11.7% of GM's common shares.  
Ontario and the GOC hope to have fully divested their share of  
ownership of GM by 2018.

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GM Canada Not Filing for Bankruptcy Protection  
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15. (SBU) GM is not filing for bankruptcy protection in Canada under the Companies' Creditors Arrangement Act (CCAA), and will continue operating, though interruptions are expected during GM's Chapter 11 filings in the United States. GM Canada will complete its restructuring without the use of a court-supervised process. There is strong market demand for the Oshawa, Ontario-produced Camaro, which began in March, and the Impala, which will remain in production during the company's restructuring. If suppliers are paid in advance, suppliers are expected to continue shipping parts to the GM's Canadian plants.

16. (SBU) Comment: Ontario and the GOC have invested in GM with an expectation that they could break even, but they are unable to guarantee a return on taxpayers' money. Both have stressed that the alternative is far worse, with a potential loss of tens of thousands of jobs immediately following a GM decision to withdraw from Canada. Prime Minister Harper told reporters on June 1 that the GM bailout would account for the greatest part of the GOC's budget deficit.

17. (SBU) Comment, continued: There has been little political opposition to the bailout in Canada, although polls indicate that Canadians are skeptical about its value. The government investment

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has been depicted by some government officials as a one shot deal; however, market analysts warn that the auto producer will likely require more money to survive. With low expectations, all eyes will be on GM as it struggles to rebuild.

NAY